

Ms. Karen L. Bowne, Senior Reimbursement Manager
Manor Care Health Services, Inc.
11555 Darnestown Road
Gaithersburg, Maryland 20878-3200

Re: AC# 3-MAN-J5 – Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation
and Nursing Center

Dear Ms. Bowne:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**MANOR CARE OF LEXINGTON, INC.
d/b/a MANOR CARE REHABILITATION
AND NURSING CENTER**

WEST COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-MAN-J5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1996	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1997	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1995	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 6, 1997

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 6, 1997

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

MANOR CARE REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-MAN-J5

10/01/96-
09/30/97

Interim reimbursement rate (1)	\$79.12
Adjusted reimbursement rate	<u>77.28</u>
Decrease in reimbursement rate	\$ <u><u>1.84</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 15, 1997

MANOR CARE REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Periods October 1, 1996 Through September 30, 1997
 AC# 3-MAN-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.63	\$33.83	\$37.60	\$33.83
Dietary	<u>.60</u>	<u>7.39</u>	<u>8.59</u>	<u>7.39</u>
Subtotal	<u>\$3.23</u>	41.22	46.19	41.22
Laundry/Housekeeping/Maint.	\$1.06	5.56	7.04	5.56
Administration & Med. Rec.	<u>-</u>	<u>14.11</u>	<u>8.55</u>	<u>8.55</u>
Subtotal	<u>\$1.06</u>	60.89	<u>\$61.78</u>	55.33
<u>Costs Not Subject to Standards:</u>				
Utilities		1.94		1.94
Special Services		1.06		1.06
Medical Supplies & Oxy.		1.91		1.91
Taxes and Insurance		1.54		1.54
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$67.35</u>		61.79
Inflation Factor (4.90%)				3.03
Cost of Capital				10.46
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.06
Cost Incentive - For Gen. Serv. & Dietary				3.23
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.54)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$77.28</u>

MANOR CARE REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MAN-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,467,911	\$ -	\$ 28,424 (3) 2,026 (3)	\$1,437,461
Dietary	315,891	11,594 (2)	3,807 (3) 4,642 (4) 5,041 (5)	313,995
Laundry	38,812	-	463 (3)	38,349
Housekeeping	109,639	-	1,892 (3)	107,747
Maintenance	90,888	-	675 (3)	90,213
Administration & Medical Records	599,627	5,723 (4)	5,048 (3) 629 (3)	599,673
Utilities	86,929	-	4,594 (4)	82,335
Special Services	38,676	6,881 (5)	606 (3)	44,951
Medical Supplies & Oxygen	140,564	-	11,594 (2) 367 (3) 3,706 (4) 43,928 (5)	80,969
Taxes & Insurance	65,271	-	-	65,271
Legal Fees	405	-	-	405
Cost of Capital	<u>424,335</u>	<u>20,113</u> (6)	<u>228</u> (1)	<u>444,220</u>
Subtotal	3,378,948	44,311	117,670	3,305,589

MANOR CARE REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MAN-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	107,669	-	-	107,669
Non-Allowable	272,271	228 (1) 43,937 (3) <u>42,088 (5)</u>	20,113 (6)	338,411
Total Operating Expenses	<u>\$3,758,888</u>	<u>\$130,564</u>	<u>\$137,783</u>	<u>\$3,751,669</u>
TOTAL PATIENT DAYS	<u>*42,486</u>	<u>-</u>	<u>-</u>	<u>42,486</u>

*Adjusted to 97% occupancy

TOTAL BEDS 120

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MAN-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$298,643	
	Nonallowable	228	
	Accumulated Depreciation		\$297,308
	Other Equity		1,335
	Cost of Capital		228
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Dietary	11,594	
	Medical Supplies		11,594
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
3	Nonallowable	43,937	
	Nursing		28,424
	Restorative		2,026
	Dietary		3,807
	Laundry		463
	Housekeeping		1,892
	Maintenance		675
	Administration		5,048
	Medical Records		629
	Medical Supplies		367
	Special Services		606
	To adjust group health insurance and workers' compensation expense to allowable HIM-15-1, Section 2304		
4	Other Income	7,219	
	Administration	5,723	
	Dietary		4,642
	Utilities		4,594
	Medical Supplies		3,706
	To properly offset income against related expenses HIM-15-1, Sections 2102.3 and 2328 State Plan, Attachment 4.19D		

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MAN-J5

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Special Services	6,881	
	Nonallowable	42,088	
	Dietary		5,041
	Medical Supplies		43,928
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
6	Cost of Capital	20,113	
	Nonallowable		20,113
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$436,426</u>	<u>\$436,426</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MANOR CARE REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1995
 AC# 3-MAN-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>120</u>
Deemed Asset Value	3,836,760
Improvements Since 1981	1,427,053
Accumulated Depreciation at 9/30/95	<u>(1,383,878)</u>
Deemed Depreciated Value	3,879,935
Market Rate of Return	<u>0.070</u>
Total Annual Return	271,595
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	271,595
Depreciation Expense	165,759
Amortization Expense	6,866
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	444,220
Total Patient Days (Minimum 97% Occupancy)	<u>42,486</u>
Cost of Capital Per Diem	\$ <u><u>10.46</u></u>

MANOR CARE REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-MAN-J5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.93
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>10.92</u>
Reimbursable Cost of Capital Per Diem	\$10.46
Cost of Capital Per Diem	<u>10.46</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>